

Message Text

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PAGE 01 STATE 259503

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APPROVED BY THE SECRETARY

EB - THOMAS ENDERS

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C - JDOBBINS

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FM SECSTATE WASHDC

TO AMEMBASSY BONN PRIORITY

C O N F I D E N T I A L STATE 259503

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EXDIS

E.O. 11652: GDS

TAGS: EFIN

SUBJECT: DEBT PROPOSAL BY EGON BAHR

REF : (A) STATE 226372; (B) BONN 16097; (C) BONN 16032;

(D) BONN 15846

FOR THE AMBASSADOR FROM THE SECRETARY

1. I HAVE CAREFULLY CONSIDERED THE SUGGESTION MADE TO ME BY EGON BAHR THAT A DEBT MORATORIUM, OR GENERAL DEBT RESCHEDULING, BE USED TO HELP THE DEVELOPING COUNTRIES IN THEIR CURRENT FINANCING DIFFICULTIES. I SHARE BAHR'S CONCERN REGARDING THE DETERIORATING BALANCE OF PAYMENTS POSITIONS OF DEVELOPING COUNTRIES, AND RECOGNIZE WE MUST FIND ADDITIONAL WAYS OF DEALING WITH THIS VERY SERIOUS PROBLEM. FOR THE UNITED STATES, HOWEVER, GENERALIZED
CONFIDENTIAL

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PAGE 02 STATE 259503

DEBT RESCHEDULING IS THE WORST SOLUTION. IF SUCH

PROPOSALS RECEIVED THE BACKING OF MAJOR CREDITORS, SUCH AS THE FRG, THE U.S. COULD BE ISOLATED IN INTERNATIONAL FORUMS ON THE ISSUE AND THE RISKS OF WIDESPREAD DEFAULT ON USG LOANS AND CREDITS WOULD INCREASE. IT IS CLEARLY IN OUR INTERESTS THAT THE FRG NOT ADOPT THESE PROPOSALS.

2. YOUR REPORTS (REFTEL B) INDICATED THAT THE FRG POSITION ON THIS MATTER WILL BE MADE BY CHANCELLOR SCHMIDT. PLEASE CARRY MY VIEWS ON THIS IMPORTANT MATTER TO EGON BAHR AND KARL OTTO POEHL, ASKING THAT THEY ALSO BE CONVEYED TO THE CHANCELLOR. IN DISCUSSIONS YOU SHOULD STRESS THE FOLLOWING POINTS:

A) I VERY MUCH APPRECIATED THE OPPORTUNITY TO HEAR EGON BAHR'S VIEWS REGARDING THE DETERIORATING BALANCE OF PAYMENTS POSITIONS OF DEVELOPING COUNTRIES. I SHARE BAHR'S VIEW THAT THE SITUATION IS CAUSE FOR INCREASING ALARM. I ALSO BELIEVE THAT WE MUST FIND ADDITIONAL WAYS OF DEALING WITH THE PROBLEM. THIS SHOULD BE ONE OF THE PRIME SUBJECTS ON WHICH WE FOCUS THE CONSUMER/PRODUCER DIALOGUE, AND WARRANTS DISCUSSION AT THE ECONOMIC SUMMIT.

B) FROM THE U.S. VIEWPOINT, GENERALIZED DEBT RESCHEDULING IS NOT FEASIBLE. LEGAL AND CONGRESSIONAL CONSTRAINTS SO LIMIT OUR FLEXIBILITY TO PROVIDE DEBT RELIEF THAT IT IS THE MOST DIFFICULT OF ALL APPROACHES TO FINANCING FOR DEVELOPING COUNTRIES. OUR ABILITY TO RESCHEDULE AT ALL HINGES ON FOLLOWING A CASE-BY-CASE APPROACH IN A FRAMEWORK THAT CLEARLY DISTINGUISHES DEBT RELIEF FROM AID. THE UNITED STATES COULD NOT THEREFORE PARTICIPATE IN ANY PROPOSAL FOR GENERALIZED DEBT RELIEF. CONGRESS IN PARTICULAR WOULD BE HOSTILE.

C) WE BELIEVE EITHER GENERALIZED DEBT RELIEF OR A DEBT MORATORIUM INVOLVE DANGEROUS PRECEDENTS TO THE TRADITIONAL CREDITOR-DEBTOR RELATIONSHIP, AND THAT THEY WOULD AFFECT ADVERSELY THE LONG-TERM FLOW OF RESOURCES TO THE LDCS. IT WOULD GREATLY ENCOURAGE THOSE DEVELOPING COUNTRIES WHICH ARE ALREADY URGING CONTINUING AND WIDESPREAD USE
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 259503

OF DEBT RELIEF AS AID.

D) THE U.S. IS PREPARED TO CONTINUE COOPERATING IN HELPING LDCS ALLEVIATE ACUTE DEBT PROBLEMS. THERE IS A WIDE DIVERSITY OF DEBT SITUATIONS -- CALLING FOR DIFFERENT TYPES OF REMEDIAL ACTION -- EVEN AMONG THE MOST SEVERELY AFFECTED COUNTRIES. MANY MSAS WOULD IN FACE GAIN VERY LITTLE FROM DEBT RELIEF. WE BELIEVE IT ESSENTIAL TO

MAINTAIN THE CURRENT CREDITOR COUNTRY POLICY OF APPROACH-
ING DEBT RELIEF ON A "CASE-BY-CASE" BASIS, WHEREBY EACH
INDIVIDUAL COUNTRY SITUATION IS EXAMINED ON ITS MERITS
WITHIN THE TRADITIONAL "CREDITOR CLUB" FORUM. DESPITE
ITS HIGH COST TO OECD COUNTRIES, THE BAHR PROPOSAL WOULD
NOT REALLY EASE THE FINANCIAL BID OF THOSE LDCS WE ARE
MOST CONCERNED ABOUT. BRAZIL, ARGENTINA, MEXICO, KOREA,

TAIWAN. THE MAJOR DEBT SERVICING PROBLEMS OF THESE
COUNTRIES IS PRIVATE DEBT, LARGELY TO BANKS, WHICH
BAHR'S PROPOSAL WOULD NOT TOUCH.

E) WE ARE CURRENTLY EXAMINING ALTERNATE APPROACHES TO
ALLEVIATE THE FINANCING PROBLEMS OF THE POOR COUNTRIES.
EXPANDED IMF LENDING IS ONE PROMISING APPROACH, BUT
OTHER IMAGINATIVE PROPOSALS ARE CLEARLY NEEDED. I WOULD
GREATLY VALUE ANY IDEAS EITHER BAHR OR POEHL HAVE ON THIS
SUBJECT. KISSINGER

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